

PHILIPPINES ECONOMIC WRAP-UP

MAY 27 - JUNE 02, 2000

----- Summary -----

First quarter numbers show the Philippine economy growing at 3.4% (over Jan-Mar 1999); poor agricultural output kept growth from reaching the government's 3.8% target. January-April exports grew at a rate of 10.6%, down from 12% growth for the same period in 1999, with electronics exports slowing significantly. We report on the government's current thinking as to how fighting in part of Mindanao may impact on 2000 growth projections, and on banking developments including the sale of Philippine National Bank.

These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

----- Contents -----

MARKET AND POLICY DEVELOPMENTS

- Forex Report
- Credit Market Report
- Stock Market Report
- First Quarter GDP Grows By 3.4%
- Traditional Exports Showing Some Life, Electronics Slow
- Mindanao, Economic Growth, And The Budget
- PNB Sale: Who's Buying?
- Bank Notes

----- Market and Policy Developments -----

FOREX REPORT -----

The Philippine peso stabilized this week as peace talks to quell fighting in areas of Mindanao got underway. The peso ended the week at 42.465/US\$; its May 26 close was P42.72/US\$. Separately, Bangko Sentral ng Pilipinas (BSP, the central bank) Governor Rafael Buenaventura told reporters that the BSP has no authority to stop currency speculation, other than "moral suasion". He said that tighter documentary regulations on foreign currency dealers could be instituted if speculation became rampant, but ruled out currency controls.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
APR 24	41.258	41.275	74.5
25	41.342	41.355	129.2
26	41.378	41.310	143.7
27	41.278	41.300	123.8
28	41.279	41.280	136.9
MAY 01	Markets Closed		
02	41.275	41.279	127.9
03	41.269	41.270	84.4
04	41.265	41.280	65.5
05	41.279	41.280	112.6
MAY 08	41.274	41.280	45.0
09	41.279	41.279	57.5
10	41.353	41.370	113.5
11	41.398	41.430	93.5
12	41.474	41.500	119.5
MAY 15	41.589	41.560	135.5
16	41.613	41.630	86.6
17	41.662	41.665	145.5
18	41.727	41.730	183.0
19	41.682	41.670	103.9
MAY 22	41.801	41.915	157.7
23	42.158	42.370	161.5
24	42.749	42.740	119.3

25	43.159	43.400	206.7
26	42.976	42.720	170.7

MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5
JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Despite the peso's weakness and the fighting in Mindanao, Treasury bill rates remained stable at this week's auction. There was heavy demand from banks for the 91-day T-bills. Yields on the 91-day T-bills declined 0.7 basis points to 9.968%. Yields on the 182-day T-bills were unchanged at 10.375% because the Bureau of Treasury rejected all bids. Yields on the 364-day T-bills declined 2.7 basis points to 11.396%. The Treasury has kept 91-day rates (the reference for commercial loan rates) down but yields on the 182-day and 364-day T-bills are now 80-90 basis points higher than in mid-April, an indication of the upward pressure on rates.

The May 30 auction of two-year Treasury bonds saw rates rise 25 basis points (from a month earlier) to 12.0%. A total of P5.4 billion in bids were submitted, but only P2.0 billion of the P3 billion bonds were sold. Traders suggested rates would have been 50 basis points higher if the Treasury had made a full award.

----- **Domestic Interest Rates (in percent)** -----

Treasury Bills

Auction Date	91 days	182 days	364 days
APR 24	8.689	9.555	10.634
MAY 02	8.700	9.736	10.764
MAY 08	8.746	9.825	10.800

MAY 15	8.690	9.900	10.963
MAY 22	8.975	10.375	11.423
MAY 29			

Source: Bureau of the Treasury

Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey	Average	Range
APR 27	11.2353	9.50 - 13.375
MAY 03	10.9953	9.50 - 13.375
MAY 09	11.0068	9.50 - 13.375
MAY 18	11.0078	9.50 - 13.375
MAY 25	11.1516	10.00 - 13.750
JUN 01	11.1416	10.25 - 13.625

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Philippine stocks recovered slightly from lows recorded the previous week, but most traders said that the rebound was almost purely technical and did not reflect any real optimism. Trading volumes averaged less than P1 billion/day. Some traders suggested the market has bottomed out, but that prices would not start to rise until some good news (such as positive corporate earnings reports) spurred trader interest. The 33-share Philippine Stock Index (PHISIX) closed at 1512.75 on June 2, up 6% from its May 26 close of 1427.26.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
APR 24	1664.46	482
25	1647.56	945
26	1639.83	913
27	1620.53	950

28	1598.73	1046
MAY 01	Markets Closed	
02	1606.04	979
03	1592.68	692
04	1553.34	922
05	1551.90	914
MAY 08	1518.61	828
09	1523.43	818
10	1522.96	4599 a/
11	1505.21	778
12	1539.31	1064
MAY 15	1517.09	1401
16	1507.98	1023
17	1534.05	1328
18	1521.36	539
19	1478.68	1162
MAY 22	1412.09	935
23	1404.67	1143
24	1418.79	1266
25	1426.62	1267
26	1427.26	2540
MAY 29	1482.77	1107
30	1470.07	746
31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.

Source: Philippine Stock Exchange

FIRST QUARTER GDP GROWS BY 3.4%

The government's National Statistical Coordination Board (NSCB) announced this week that first quarter real Gross Domestic Product (GDP) and Gross National Product (GNP) grew 3.4% (over 1999/Q1). Net factor income from abroad increased by a relatively modest 4.3%. Overseas workers'

remittances expanded, but so did outflows for foreign interest payments -- thereby eliminating GNP growth's usual edge over GDP growth.

Although first quarter GDP growth accelerated from last year's 0.7% performance, it was 0.4 percentage points lower than the government's target. Economic planning officials traced the slower-than-expected expansion to weak agricultural sector output. Plagued by unfavorable weather, diseases and pest infestation, agriculture barely grew from the first quarter of 1999 (0.2%, versus the targeted 2.2%). Services expanded by 3.8% instead of the envisioned 4.5%. The stronger-than-expected expansion of the industrial sector (up 4.8% versus the 4.1% growth target) partially made up for the slack, led by manufacturing output (up 5.8% compared with the government's 4.6% goal). Personal consumption, exports, and some recovery in capital spending spurred economic growth on the demand side. Public sector spending contracted as the government reverted to a more cautious spending plan after 1999's pump-priming budget.

Economic planning officials said that the first quarter economic expansion remains consistent with 4% full-year GDP growth (the lower end of the government's 4-5% targeted range). The Department of Agriculture expects agricultural output to pick-up from the first quarter's lackluster performance. Meeting the full-year growth target will also depend on sustaining the recovery in manufacturing and accelerating services sector output -- which, according to government economic planners, will require continuous efforts to improve investor confidence (including the resolution of the peace and security problems in Muslim Mindanao).

REAL GDP AND GNP

	1999 r/					2000
	Q1	Q2	Q3	Q4	FY	Q1
GDP	0.7	3.6	3.8	4.9	3.3	3.4
Net Factor Income	17.2	11.0	4.2	8.9	10.1	4.3
GNP	1.5	4.0	3.8	5.1	3.3	3.4

By Industrial Origin

Agriculture	2.9	9.2	5.3	6.6	6.0	0.2
Industry	-3.6	0.6	2.5	3.8	0.9	4.8
Mining & Quarrying	-15.6	-14.1	-13.3	14.8	-8.4	18.8
Manufacturing	-1.0	0.9	2.4	3.7	1.6	5.8
Construction	-12.8	1.8	5.2	1.6	-1.6	-0.7
Utilities	1.3	1.3	4.5	5.2	3.1	3.0
Services	3.2	3.8	4.3	5.0	4.1	3.8
Transp., Communic., & Storage	3.4	5.0	5.8	6.7	5.3	7.0
Trade	2.8	4.4	5.8	6.1	4.9	4.7
Finance	2.6	1.8	1.0	2.2	1.9	1.5
Dwellings/Real Estate	-0.2	0.5	0.8	1.2	0.6	1.7
Private Services	5.9	5.6	5.7	6.0	5.8	4.9
Gov't Services	4.3	3.3	2.9	4.2	3.7	0.7

By Expenditure Shares

Personal Consumption	2.5	2.6	2.5	2.9	2.6	3.2
Gov't Consumption	7.9	4.2	3.1	6.5	5.3	-1.9
Investment	-5.9	6.2	-0.6	-4.8	-1.7	3.0
Exports	-8.4	3.3	11.5	8.9	3.6	13.5
Imports	-16.8	0.1	1.5	6.6	-2.8	4.4

r/ revised

Source: National Statistical Coordination Board

TRADITIONAL EXPORTS SHOWING SOME LIFE, ELECTRONICS SLOW

The first four months of the year saw exports rising 10.6% to \$11.3 billion from the same period last year. Export growth was broadly based, with virtually all commodity groups posting double-digit growth. A notable exception was electronics, which posted a 6% increase to \$6.5 billion. In recent years, electronics had been the fastest growing sector, but its growth has slowed significantly in the past few months. Leading traditional products (minerals, coconut products, fruits and vegetable and other agro-based commodities) have shown some life, and accounted for 10% (\$108 million) of

export growth for Jan-April 2000. As Asian trade partners (Japan, Taiwan, Singapore and Hong Kong), continue to recover from the financial crisis, their aggregate share of Philippine exports grew 22% to \$3.9 billion. Although the U.S. share (\$3.3B) has declined from 30% to 29%, it remains the Philippines' largest market for merchandise goods.

 Philippine Export Performance, Jan - Apr 2000

	1999	2000
Exports (FOB, Million US\$)		
January	2,581	2,717
February	2,569	2,902
March	2,702	2,989
April	2,346	2,668
January-April	10,198	11,276
Growth Rate (Y/Y, in pct)		
January	22.0	5.3
February	15.4	13.0
March	9.2	10.6
April	2.7	13.7
January-April	12.0	10.6

 Source: National Statistics Office

 Export Performance of Leading Commodity Groups
 January - April 2000

	1999 (Value in Mill\$)	2000	Pct Growth (y/y)
Manufactures:			
Electronics	6,178	6,546	6.0
Machinery and transport eqpmt	1,389	1,765	27.1
Garments	623	733	17.6
Traditional products:			
Minerals	202	229	13.4
Fruits & vegetables	152	179	17.8
Coconut	133	159	19.5
Other agro-based products	149	164	10.1

Sugar	32	42	31.2
Other	1,340	1,459	8.9

Source: National Statistics Office

MINDANAO, ECONOMIC GROWTH, AND THE BUDGET

The problematic peace and order situation in part of Western Mindanao has prompted the government to review economic growth targets and the 2000 fiscal program. Some members of the government's Economic Coordinating Council indicated that protracted problems in Mindanao could prevent GDP from growing at the upper end of this year's 4-5% target range. Meanwhile, government fiscal planners emphasized the government remains committed to keeping the 2000 national government deficit within the targeted P62.5 billion ceiling. However, the effort may require budget cuts and realignments in order to cushion the impact of unforeseen, Mindanao-related defense spending. The government is also considering a supplemental budget, but budget and finance officials indicated this option would probably be a last resort because it meant incurring additional debt.

The government continues to emphasize that the direct economic impact of the Mindanao conflict is small. However, analysts noted that the less direct and more difficult-to-quantify effect on overall business confidence and perception will also play an important role.

PNB SALE: WHO'S BUYING?

It remains unclear what groups have qualified to bid for an 80% stake in Philippine National Bank. We had reported in our May 19 edition that 3 groups had been prequalified: local Rizal Commercial Banking Corporation, a consortium led by TLC Beatrice LLC of the U.S., and a group led by Indonesian mining firm Lebung Tandai Incorporated. Since then, it has been reported that TLC Beatrice was "conditionally prequalified", but has not yet formally met the condition that its consortium

include a partner bank. Reports also indicate that the Lebung Tandai group was formally disqualified. A failure to prequalify at least two bidders will mean a failed bidding; the projected sale date is June 9. The sale combines a 30.39% block in the bank owned by the Philippine government, a 46% stake held by local tycoon Lucio Tan, and a 3.5% block owned by the PNB retirement fund. The government is under strong pressure from the IMF and World Bank to privatize PNB shares in a fair and transparent manner. A recent audit of PNB said it had a non-performing loan ratio of 36%.

BANK NOTES

Urban Bank Still For Sale: The Bank of Commerce announced a deal with the shareholders representing a majority of Urban Bank's shareholders that would see Bank of Commerce taking a majority stake in Urban Bank. Bank of Commerce is controlled by the Cojuangco family, which recently lost control of PLDT (the former monopoly telephone firm) to First Pacific Corp. Philippine Deposit Insurance Corp (PDIC) President Nazareno later stated that the agreement with Bank of Commerce only allowed Bank of Commerce to present a rehabilitation plan for Urban Bank and that PDIC was talking to other banks interested in acquiring Urban Bank.

Traders Royal Bank: Bank of Commerce has received BSP approval for its planned takeover of Traders Royal Bank (TRB). TRB, with 55 branches, is controlled by the family of Roberto Benedicto, a prominent Marcos crony who died recently.